



DAKOTA COOPERATIVE TELECOMMUNICATIONS, INC.

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MAY 6 1996

FCC MAIL ROOM

May 2, 1996

Mr. William F. Canton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W. - Room 222
Washington, D.C. 20554

Re: Dakota Cooperative
Notice of Ex Parte Presentation,
In the Matter of the Universal Service
Joint Board
CC Docket No. 96-45

Dear Mr. Canton:

On May 6, 1996, Tim Dupic of Dakota Cooperative spoke with Commissioner Laska Schoenfelder and Charlie Bolle of the South Dakota Public Service Commission and members of the 96-45 Universal Service Joint Board, to discuss the Universal Service NPRM.

Please acknowledge receipt hereof by affixing a notation on the duplicate copy of this letter furnished herewith for such purposes and remitting same to bearer.

Best Regards,

Tim Dupic

cc: Laska Schoenfelder
Charlie Bolle

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**SD PUBLIC UTILITIES
COMMISSION**

May 6, 1996

- **DEM Weighting**
- **USF Program**
- **Administration**

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DEM Weighting

- **FCC Part 31 Accounting and Part 36 Separation Rules**
- **FCC Part 32 Accounting and Part 36 Separation Rules**
- **Revenue Requirement characteristics of small exchange carriers**
- **DEM weighting and TS Switched Access Rates**
- **DEM weighting essential for small rural exchange carriers**

**DEM WEIGHTING LOCAL SWITCHING ASSISTANCE
BASED ON 1993 DATA
(\$ IN THOUSANDS)**

<u>STATE</u>	<u>ESTIMATED 1993 DEM WTG IMPACT</u>	<u>STATE</u>	<u>ESTIMATED 1993 DEM WTG IMPACT</u>
AK	\$12,337	MT	\$6,025
AL	\$6,693	NC	\$5,876
AR	\$6,519	ND	\$5,781
AZ	\$4,348	NE	\$7,417
CA	\$4,353	NH	\$3,832
CO	\$3,481	NJ	\$607
CT	\$700	NM	\$6,161
DC	\$0	NV	\$4,275
DE	\$0	NY	\$12,741
FL	\$2,573	OH	\$4,725
GA	\$11,746	OK	\$8,865
HI	\$0	OR	\$7,043
IA	\$16,197	PA	\$8,802
ID	\$4,100	PR	\$0
IL	\$7,241	RI	\$0
IN	\$6,691	SC	\$12,928
KS	\$9,313	SD	\$5,908
KY	\$5,430	TN	\$7,904
LA	\$5,932	TX	\$13,345
MA	\$274	UT	\$2,530
MC	\$1,417	VA	\$4,409
MD	\$291	VI	\$0
ME	\$5,124	VT	\$2,474
MI	\$8,710	WA	\$3,381
MN	\$16,304	WI	\$20,353
MO	\$7,831	WV	\$2,031
MS	\$3,409	WY	\$2,598
		TOTAL	\$311,025

Estimated DEM weighting impact for cost and average schedule companies is based on 1993 data.

Data sources include 1994 USF Data Submission, FCC USF NOI Data Request, and 1994 Network Usage Data Submission

DEM WEIGHTING SUMMARY

- Eliminating DEM Weighting would shift over \$300 million per year to the state jurisdiction.
- Switching costs are higher on a per unit basis in rural areas.
- Major changes, if any, should be implemented over a reasonable time period to avoid dramatic shifts of costs.
- Elimination of DEM and using commissions baseline USF proposal for option one on USF would:
 - Shift \$182.38 per loop per month for most severely affected company.
 - Shifts of over \$5.00 per month per loop would be experienced by 406 study areas serving 2.8 million loops.
 - Shifts of over \$10.00 per-loop-per-month would be experienced by 234 study areas serving over 500,000 loops.

USF Program

- **Historical support mechanism**
- **Current support mechanism**
- **Impact on small rural exchange carriers**

UNIVERSAL SERVICE FUND

- ✓ Targeted to Exchange Carriers
- ✓ Assistance to High Cost Study Areas
- ✓ To Keep Intrastate rates at Reasonable Levels
- ✓ Supports Infrastructure Improvements and Extension of Service to Unserved Areas

JOINT BOARD/FCC CHANGES **in** **LOOP COST ALLOCATION** **&RECOVERY**

In 1983, the FCC adopted four basic principles to be met by any new separations plan:

- provide certainty to all parties
- ensure the permanent protection of universal service
- be administratively workable
- be fair and equitable to all parties

The PURPOSE of USF

- To assure the continuation of affordable basic telephone service
- To prevent intrastate rate disruption resulting from uncertain impact of access charges and deregulation as well as the transition from Subscriber Plant Factor (SPF) to a non-traffic sensitive interstate allocation factor of 25 percent
- To selectively target additional interstate revenue to Exchange Carriers with high subscriber line costs

Universal Service Fund

Key Issues

❑ USF GROWTH & SIZE

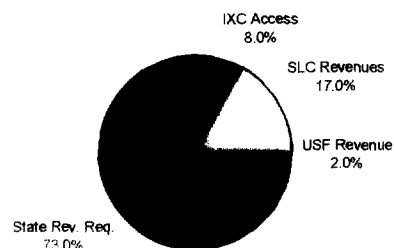
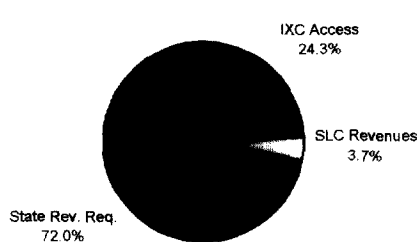
❑ Effects of Joint Board/FCC Rule Changes

❑ Allocation of Costs Has Shifted to State

	State Impact
SPF to 25%	\$1102 million
USF	(\$698) million
Net shift of costs	\$404 million

❑ Recovery of Interstate Costs Has Shifted From IXC to End Users

Common Line Revenue Requirements



**ANALYSIS OF NPRM SCENARIOS
IMPACT OF FCC USF OPTION 1 AND ELIMINATION OF DEM WEIGHTING**

COMPANY NAME	12/31/93 USF LOOPS	ANNUAL USF EXPENSE ADJ.	REVISED EXP ADJ. FOR FCC OPTION 1	\$ DIFFERENCE	S IMPACT /LOOP/MO	LOSS OF ESTIMATED 1993 DEM WTG	\$ IMPACT /LOOP/MO	COMBINED USF-DEM WT CHANGE	TOTAL \$ IMPACT /LOOP/MO
CHEYENNE RIVER SIOUX	2,258	\$280,392	\$220,240	(\$60,152)	(\$2.22)	(\$112,520)	(\$4.15)	(\$172,672)	(\$6.37)
DAKOTA COOP TELECOM	5,687	\$97,986	\$0	(\$97,986)	(\$1.44)	(\$400,776)	(\$5.67)	(\$498,762)	(\$7.31)
JEFFERSON TEL CO SO	524	\$1,876	\$0	(\$1,876)	(\$0.30)	(\$76,849)	(\$12.22)	(\$76,724)	(\$12.52)
KADOKA TELEPHONE	557	\$0	\$0	\$0	\$0	(\$112,512)	(\$16.83)	(\$112,512)	(\$16.83)
KENNEBEC TEL CO	271	\$149,393	\$37,697	(\$111,696)	(\$34.35)	(\$61,531)	(\$18.92)	(\$173,227)	(\$53.27)
SANBORN TEL COOP	2,489	\$24,878	\$8,652	(\$16,027)	(\$0.54)	(\$188,593)	(\$6.31)	(\$204,620)	(\$6.85)
STOCKHOLM-STANDBURG	210	\$11,119	\$0	(\$11,119)	(\$4.41)	(\$53,791)	(\$21.35)	(\$84,910)	(\$25.78)
SULLEY BUTTES TEL	3,999	\$293,266	\$213,438	(\$79,828)	(\$1.66)	(\$371,092)	(\$7.73)	(\$450,921)	(\$9.40)
VALLEY TELECOMM.	1,964	\$33,022	\$0	(\$33,022)	(\$1.40)	(\$154,634)	(\$6.68)	(\$187,657)	(\$7.98)
WEST RIVER COOP	1,439	\$396,894	\$301,465	(\$95,429)	(\$5.53)	(\$218,808)	(\$12.68)	(\$314,037)	(\$18.19)
NORTHWESTERN BELL-SD	282,383	\$0	\$0	\$0	\$0.00	\$0	\$0.00	\$0	\$0.00
GOLDEN WEST COMM	8,083	\$525,717				(\$685,108)	(\$7.06)		
GOLDEN WEST TELECOMM.	12,503	\$910,435				(\$718,074)	(\$4.79)		
GOLDEN WEST - SD	20,586	\$1,436,152	\$1,120,398	(\$315,755)	(\$1.28)	(\$1,403,182)	(\$5.68)	(\$1,718,937)	(\$6.96)
COST COMPANY TOTAL	322,822	\$2,724,980	\$1,902,089	(\$822,890)		(\$3,154,089)		(\$3,976,979)	
ESTIMATED AVG. SCH. TOTAL	40,589	\$589,226	\$383,810	(\$205,416)	(\$0.42)	(\$2,753,620)	(\$5.65)	(\$2,959,039)	(\$6.08)
STATE TOTAL	363,411	\$3,314,206	\$2,285,898	(\$1,028,308)		(\$5,907,709)		(\$6,936,015)	

Data Sources: NECA USF Data Submission (9/30/94)
FCC USF Data Collection (2/95), 3/95)

Expense adjustment amounts calculated based on 1993 data for 1995 payout, prior to application of Interim USF cap.

FCC Option 1 consolidates affiliated study areas in a state, excludes administrative costs and uses average loops.

**ANALYSIS OF NPRM SCENARIOS
IMPACT OF FCC USF OPTION 1 AND ELIMINATION OF DEM WEIGHTING
ESTIMATED 1995 IMPACT**

<u>COMPANY NAME</u>	<u>COMBINED USF-DEM WT CHANGE</u>	<u>TOTAL \$ IMPACT /LOOP/MO</u>
CHEYENNE RIVER SIOUX	(\$227,927)	(\$8.41)
DAKOTA COOP TELECOM	(\$657,609)	(\$9.64)
JEFFERSON TEL CO	(\$101,276)	(\$16.11)
KADOKA TELEPHONE	(\$148,516)	(\$22.22)
KENNEBEC TEL CO	(\$228,660)	(\$70.31)
SANBORN TEL COOP	(\$270,098)	(\$9.04)
STOCKHOLM-STANDBURG	(\$112,081)	(\$44.48)
SULLEY BUTTES TEL	(\$595,216)	(\$12.40)
VALLEY TELECOMM.	(\$247,707)	(\$10.51)
WEST RIVER COOP	(\$414,529)	(\$24.01)
NORTHWESTERN BELL-SD	\$0	\$0.00
GOLDEN WEST - SD	<u>(\$2,268,997)</u>	<u>(\$9.19)</u>
COST COMPANY TOTAL (EXCLUDING BELL)	(\$5,272,616)	(\$10.87)
ESTIMATED AVG. SCH. TOTAL	(\$3,905,931)	(\$8.02)
STATE TOTAL (EXCLUDING BELL)	(\$9,178,547)	(\$9.44)

USF PROGRAM SUMMARY

- Option one baseline proposal would shift \$291 million per year to state jurisdiction.
- Proxy mechanism could increase USF to over \$8.6 billion.
- The 1996 USF expense adjustment decreased from the 1995 level.
- The USF has increased only 5.4% per year since inception.
- The USF is a small amount of the EC's total revenue requirement and is still decreasing in relation to minutes of use. (1996 USF is expected to be approximately \$.003 per minute.)
- Major changes, if any, should be implemented over a reasonable time period to avoid dramatic shifts of costs.